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United Nations Office for Project Services

Progress report of the Executive Director on the activities of UNOPS*

Summary

In the spirit of United Nations management reforms, the Executive Director reaffirms the role of the United Nations Office for Project Services (UNOPS) to provide effective management services to the United Nations system and contribute to overall United Nations system results at the country level, under the leadership of United Nations resident coordinators, humanitarian coordinators, and special representatives of the Secretary-General. Executive Board decisions since the establishment of UNOPS in 1995, culminating in decision 2005/36, provide the framework for UNOPS services to support the development, humanitarian, and peacekeeping mandates of the United Nations.

2006 is a transition year for UNOPS, with the shift of its corporate headquarters to Copenhagen, the global rationalization and consolidation of other offices, and the appointment of a new management team. It is also a year in which UNOPS is taking resolute action to address internal management weaknesses and to set in motion a series of initiatives to achieve consistently strong performance in project management and procurement to benefit the United Nations and the people it serves.

Pursuant to Executive Board decision 2006/17 of 23 June 2006, this report provides an update on actions taken to ensure resubmission of the 2004-2005 financial statements no later than 30 November 2006, together with an update on projected 2006 year-end financial results.

Elements of a decision

The Executive Board may wish to take note of the key elements of the Executive Director's emerging business strategy, the efforts under way to resubmit the 2004-2005 financial statements, and the progress made towards meeting financial targets for 2006.

* The compilation of data necessary to provide the Executive Board with the most current information has delayed submission of the present document.

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Introduction

1. The Executive Director welcomes this opportunity, after three months in office, to present to the Executive Board an assessment of priority actions needed to establish UNOPS firmly, over time, as a consistently effective provider of project management and procurement services meeting recognized, world-class standards. These needs include crucial short- and medium-term initiatives with respect to which UNOPS seeks the guidance and support of Member States.

2. A satisfactory outcome of the audit of the 2004-2005 financial statements and adequate performance against financial targets set for 2006 are prerequisites for reclaiming UNOPS prospects in 2007 and beyond.

3. The likelihood of the success – or failure – of UNOPS as currently conceived, configured, and financed should become apparent within the next calendar year. While the Executive Director and the UNOPS staff are motivated, optimistic, and wholly committed to recovering the viability of the organization and realizing its full potential, due to factors beyond the control of the current management team, it should be noted that the challenges are significant.

I. Moving forward: a business strategy for 2006 and beyond

4. Over the last few months, the Executive Director has solicited – and listened carefully to – extensive, candid input from a wide range of clients and staff, both at headquarters and in field locations. He has studied the many management consultants' reports and strategic documents prepared in recent years and has reviewed the status of their implementation. He has also examined the Executive Board decisions that provide the framework for the mandate and focus of UNOPS.

5. United Nations management reforms present a historic opportunity for UNOPS, and are therefore a cornerstone of its future business strategy. The services most in demand – where UNOPS stands the best chance of achieving excellence and operating on a fully self-financing basis – are project management and procurement, including in difficult settings where operations require complex management capacity, local country knowledge, and the ability to operate in environments where security concerns are paramount. Furthermore, the current debate on United Nations reform coincides with a growing sense, among clients and staff alike, that UNOPS needs to focus and professionalize its operations. In line with Executive Board decision 2005/36, it is therefore both essential and opportune to set a clear direction for the role of UNOPS in the broader United Nations system, one that hones the identity of the organization as it supports the principles of United Nations reform.

6. UNOPS needs to concentrate on those clients and services that can maximize the value and impact of UNOPS services for the United Nations as a whole. The UNOPS business strategy will therefore target a broad client base with project management and procurement needs. The emphasis will be on operations in selected countries that would benefit from a strong UNOPS field presence. That focus and concentration of effort will allow greater specialization, both functionally and in terms of country knowledge. It should also help reduce overhead costs and improve the competitive pricing of UNOPS services. In addition, maintaining a dedicated client orientation – by understanding client needs and adjusting to evolving client demands for services – will position UNOPS optimally for success.

7. For UNOPS, the goal of becoming a world class provider of management services will require effective implementation of several important initiatives. These include:

(a) Radically improved financial management practices, including real-time reports for managers and clients, and consistently satisfactory audit outcomes;

(b) A human resource strategy that encompasses all staff and project personnel, aimed at recruiting, developing, and retaining the best possible talent;

(c) Internationally recognized certification in project management, procurement, and finance at the organizational level as well as individually for managers and staff;

(d) Knowledge sharing in functional management areas such as project management and procurement as well as in programmatic practices such as civil works, elections and census work, environment, and fund supervision; and

(e) Rapid development and implementation of solid performance management at all levels of the organization, including pricing policy, activity-based costing, reengineered business processes, and relevant IT support.

8. In the short term, UNOPS will focus on building a solid reputation for excellence among its clients, rather than on growth.

9. UNOPS will establish a 'balanced scorecard' system as a central tool for managing performance and holding managers accountable for their contributions to the corporate strategy. In the spirit of transparency and accountability, the balanced scorecard will be available not only to the Executive Board but also to United Nations partners and clients. An outline of the performance areas to be monitored against targets is presented in the annex.

10. The establishment of a lean, effective headquarters is essential. The new organigram for UNOPS Copenhagen holds great promise for improved accountability and support to field operations. UNOPS is creating increased value by bringing functional expertise together in three domains: organizational effectiveness, corporate controls and a global service centre. Traditional functional silos will be replaced by integrated teams in these areas.

II. Preparation of the 2004-2005 financial statements

11. As reported to the Executive Board at its annual meeting, the United Nations Board of Auditors could not conduct the audit of the UNOPS 2004-2005 financial statements since the documentation as submitted was incomplete. In its decision 2006/17, the Executive Board exceptionally requested that the financial statements be resubmitted no later than 30 November 2006.

12. To meet this deadline, UNOPS has established a dedicated project team to clean up data and prepare the financial statements. The team includes a respected accounting firm, which is providing oversight, guidance and direct support. The most problematic area of the audit preparation is reconciliation of the UNDP-UNOPS 'Interfund', which has issues outstanding since 1999. UNDP and UNOPS are collaborating closely to resolve these issues of common concern. Other areas of concern include the precise status of imprest accounts, where considerable progress has already been made, and asset management, in connection with which a complete physical inventory was undertaken on 1 July 2006.

13. While solid advances are being made, the Executive Board is requested to take note of several risks:

(a) It will be extremely difficult to meet the November deadline given the recently established need to review many more years of accounts than had been anticipated. As the risk of missing the deadline – which would carry negative consequences for the ongoing business – cannot at this stage be excluded, UNOPS is assigning the highest priority to the clean-up work.

(b) There is a strong probability that the Board of Auditors will identify audit qualifications of the financial statements. The major investment now being made in clean-up cannot undo all the harm caused by years of weak financial management. UNOPS is, however, determined to address audit qualifications quickly and definitively so as to avoid any recurrence.

(c) The clean-up is likely to require financial write-offs, and at this point it would be premature to estimate their magnitude. In the worst case, the outcome could be severe given the limited size of the reserve.

III. Financial performance against targets

14. The 2006 business and financial projections remain in line with those submitted to the Executive Board at its first regular session 2006. UNOPS is on track to reach the net revenue target of $59.37 million and remain within the administrative budget target of $52.82 million for 2006.

15. As reported to the Board at its annual session 2006, year-to-date business acquisition was lower in 2006 than in many years past. This trend has continued over the summer. As of 31 July 2006, business acquisition had reached $298 million (46 per cent of which was attributable to emergency and post-conflict work and 54 per cent to development work). This level is significantly below the year-end target of $734 million. 2006 business acquisition has been constrained by various organizational changes, as well as by the caution some clients have applied to their relationship with UNOPS due to the delayed submission of the financial statements. UNOPS has redoubled its efforts to accelerate business development with the goal of reaching the target by the end of the year.

Annex
Highlights of the balanced scorecard

A. Strategic aspirations drive dimensions of the corporate-level balanced scorecard

Client perspective	Internal business process perspective
▪ Are clients satisfied with the *quality* and *consistency* of UNOPS performance along key metrics? ▪ How do clients view the quality and depth of UNOPS relationship? ▪ Do clients have clarity around UNOPS service offerings and established standard operating procedures? ▪ What has been the change in share of client spend? ▪ Is there consistent delivery of accurate and timely client reports? ▪ Is communication to clients frequent, clear and effective?	▪ Do internal controls operate effectively? ▪ Are regional/functional strategies aligned with corporate strategy? ▪ What is the level of adherence to service-line standard operating procedures? ▪ Do new projects fall within UNOPS mandate? ▪ Are field and project staff satisfied with *quantity* and *quality* of internal support services? ▪ Do staff support the strategy and do they have confidence in their managers at different levels? ▪ Do regional offices effectively cooperate to further overall UNOPS objectives?
Learning and growth perspective	**Financial perspective**
▪ Does UNOPS recruit the right people (competence, gender/ diversity)? ▪ Does UNOPS identify critical skills gaps in its staff and develop effective training programmes to address needs? ▪ To what degree is knowledge transfer occurring across the organization? ▪ Does a consistent understanding of corporate strategy and mandate exist among all staff? ▪ Are staff satisfied with the work environment, level of professionalism, culture, and values? ▪ Is there sufficient and effective communication?	▪ Are reserve targets met? ▪ Are delivery targets met? ▪ Are income targets met? ▪ Do the annual strategy and budget align? ▪ Are sufficient funds allocated for business development? ▪ Is financial information accurate, unified, and provided in a timely fashion?

B. Management will determine appropriate quantifiable metrics to best assess UNOPS performance along each dimension

Client perspective	**Internal business process perspective**
▪ Overall client satisfaction (survey) ▪ Client view of UNOPS as partner vs. provider of transaction support (survey) ▪ Degree of achievement of intended project results ▪ Share of procurement, contracting, etc., spend on UNOPS (United Nations only) ▪ Timely and accurate reporting ▪ Staff perception (survey)	▪ Percentage of audit recommendations implemented ▪ Percentage of operational measures that meet targets ▪ Occurrence of non-compliance with corporate strategy, internal rules and policies ▪ Percentage of reports completed accurately (no revision after submission) and in a timely manner ▪ Percentage of financial data captured in Atlas within 1 week of transaction ▪ Timeliness and accuracy (measured through sample reviews) of operational metrics ▪ Staff perception (survey)
Learning and growth perspective	**Financial perspective**
▪ HR data on gender/diversity ▪ Percentage of certified project management, procurement , finance staff ▪ Percentage of staff eligible for specific training courses who complete those training courses ▪ Percentage of staff who sign up for at least one practice area ▪ Staff perceptions of an environment that supports individual learning and knowledge sharing(survey) ▪ Website hits on specific knowledge sharing pages (particularly in the newly formed practice areas)	Admin. expense ratio (excluding project-based admin. costs) ▪ Admin. expense ratio (including project based admin. costs) ▪ Refunds provided due to either non-compliance or litigation ▪ Return on investments in business development. ▪ Growth in delivery overall and in priority areas ▪ Increase in reserve ratio (reserves to total delivery)

These performance measurements must cascade down and explicitly link regional, country, unit and individual scorecards, in order to ensure alignment with corporate strategic aspirations